How (not) to talk about banking and finance

This is an editorialised summary of a dinner discussion that we hosted recently with Lord Hill of Oareford, the former European Commissioner for Financial Stability, Financial Services and Capital Markets Union, and a range of senior executives from the capital markets industry.

It should not be taken as representing the views of any of the individual participants.

1) It's all about politics

It is vital for the banking and finance industry to make a better case for what it does to the public and to policymakers because the public mood helps shape the political climate - and financial regulation is drawn up in a political environment. If the industry doesn't make a successful case it is more exposed to the legislative process, particularly in national parliaments across Europe and in the European Parliament itself, where there are plenty of factions of 'anti-business' and 'anti-finance politicians'. For example, the industry in the UK is trying to persuade its EU partners to agree to some form of 'equivalence' in regulation to retain access to EU markets: but equivalence is a political – not a technical – process. The industry should build political capital before it needs to spend it.

2) Mind your language

When making the case for banking and finance, the right language is essential. If you talk at a technical level you miss the opportunity to get policymakers to understand your views and concerns. Many people in the industry tend to dive in at the detail and to use jargon as a shorthand. This turns many people off and encourages a technical and detailed response. The majority of politicians who vote on financial regulation are non-specialists, and this is amplified by the fact that at an EU level the majority of policymakers do not speak English as their first language. Leaving lobbying to lobbyists can be dangerous: policymakers want to meet with senior executives and understand how their business fits into the real world.

3) A question of purpose

A central part of talking about banking and finance in the right way is making the connection between what the industry does and the impact it has on companies, the economy and jobs. Unless the industry can clearly identify and articulate its purpose, it will struggle to persuade policymakers and the public that it is interested in anything other than making money. Given the fallout from the financial crisis, the industry is starting this discussion with a severe reputational handicap, so it has to work doubly hard to make up. Too often people in the industry give the impression that they are more concerned about the impact of regulation on their own business and on bonuses than the impact it may have on the economy and society that the industry exists to serve.

4) A cultural shift

Reframing the way the industry thinks and talks about itself requires a significant cultural shift. The industry could do a much better job at thinking about the individuals who are the ultimate beneficiaries of what it does. Asset managers, for example, tend to think of their clients in terms of institutional pension funds, rather than individuals saving for their future retirement. And if pension funds were really run in the interests of their members, there probably wouldn't be more than 40,000 of them in the UK. Often the industry can be its own worst enemy in not demonstrating the relevance of what it does to individuals' lives, and in designing business models and jargon for the benefit of itself and not its customers. This cultural shift requires a change in thinking at all levels, and should be backed up with greater diversity in the people who work in the industry.

5) A concrete impact
The best way to make the case for the industry is to use tangible examples of how it has helped customers. Very few firms communicate what they actually do each quarter: instead of 'how much money did we lend? / what was our league table ranking? / how much money did we make?' firms could disclose 'how many SMEs did we lend to / how many companies did we help raise capital? And what impact did we have on jobs?'. Firms could work better with companies, SMEs, entrepreneurs, and pension funds to help them make the case on the industry's behalf. Taking customers to meetings with MEPs and MPs – particularly when there is a local connection – can be very effective.

6) The regulatory spiral
The combination of lobbying at a technical level, talking its own book and using the wrong language has helped create the detailed regulatory response to the financial crisis. This can be a vicious circle: regulation tends to make firms take less responsibility and changes their mindset from 'is it the right thing to do?' to 'is it legal?'. While the senior manager regime in the UK is particularly draconian, it is a good example of what happens when the public and policymakers don't believe that the industry has got to grips with problems with behaviour, values and ethics – and when the industry has failed to make the connection with its customers and with society.

7) Crying wolf
Too often, the industry cries wolf: it has fought every regulatory skirmish as though it were Custer's Last Stand and frequently warned of dire consequences if a particular piece of regulation is introduced. As one regulator jokes, it's sometimes surprising that there's anyone left in the City to warn that everyone is about to leave. This came to the fore in the referendum: many people didn't believe the warnings of the economic impact of Brexit from the City, or threats that banks and staff would have to leave. That the economic impact and the scale of any exodus look likely to be less than feared is a relief – but the sense of exaggeration won't help the industry's case in future.

8) The elephant in the room
The elephant in the room is pay and bonuses, which remain a lightning rod for criticism of the industry. It's hard to get politicians and the public to sympathise with your case when they think that you're only in it for the money and when they continue to see huge sums of money being paid out in bonuses across an industry that claims it is struggling to cope with the burden of regulation (even if bonuses have come down sharply). The industry's response to the reforms around pay has gone down terribly with policymakers across Europe. People have little patience with the argument that firms need to pay market rates to remain competitive, when shareholders are not seeing the benefits in terms of performance and customers are not seeing the benefit in terms of lower costs.

9) Education, education, education
Low levels of financial literacy and financial education are a huge obstacle in making the case for banking and finance: it's hard to talk about the value of saving for retirements when many people don't understand the basics of pensions, investments, economics or finance. But the industry should not hide behind its own jargon and should ensure that its products and services are as simple, clear and understandable as possible. And beware of blaming the media for negative coverage: if the media doesn't understand what the industry does, who's fault is that – and what can be done about it?

10) The impact of technology
Technology is rapidly changing the relationship between the industry and its customers, which should help in terms of making the case for the value of what the industry does. By collapsing chains of intermediation, technology should bring customers and financial services providers closer together and significant reduce the cost and complexity of financial services products. However, this will place a premium on developing brands that consumers can trust – many people trust technology brands more than financial services brands - and could lead to a further backlash against the industry if the inevitable impact on jobs in banking and finance is not handled sensitively.

If I ruled the world…

Here is a selection of responses to the question 'If you were a benevolent dictator – unconstrained by practicality - what single measure would you take to improve the way in which the industry talks about the value of what it does?'.

1. Launch a purge across the industry of everyone who doesn't 'get it', and develop a personality test that can weed out jerks from finding their way into senior management in future.

2. Urgently increase diversity at all levels across the industry and hire people from a wider range of social and educational backgrounds with experience in different sectors.

3. Stop talking about the bonus cap for at least five years – and stop thinking of ways to get round it.

4. Introduce much more transparency and comparability around pay and bonuses: if people are worth what they are being paid, what's the problem?

5. Get the industry and government to work together to fund a long-term programme of financial education and literacy.

6. Force the industry to apply the market discipline that it applies to its day-to-day activities to itself.

7. Ensure that before anyone is promoted to a senior role in the industry that they have spent some time in another sector or at a regulator – and vice versa.

8. Invent time travel to fast forward five years to see the impact of Brexit and longer-term impact of regulation, and then rewind to make the necessary changes before it's too late.

9. Break down the sector silos in the industry to develop a clear and constructive cross-sector narrative for what the industry does and how it could do a better job.

10. Rethink regulation and work backwards to simpler, principles-based regulation with a high level of personal responsibility and accountability.